

Message Text

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ACTION EUR-12

INFO OCT-01 EA-09 ISO-00 SP-02 USIA-15 AID-05 EB-07 NSC-05
CIEP-02 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00
FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06 LAB-04 SIL-01
L-03 H-02 PA-02 PRS-01 /110 W
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O R 111627Z JAN 77 ZDK
FM AMEMBASSY LONDON
TO TREASURY DEPT WASHDC IMMEDIATE
SECSTATE WASHDC 9339
INFO AMEMBASSY BONN
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
USMISSION EC BRUSSELS
USMISSION OECD PARIS

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C O R R E C T E D C O P Y (OMISSION TEXT SECTION 1 PARA 1
SUBPARA 4)

DEPARTMENT PASS FEDERAL RESERVE BOARD

E.O. 11652: N/A
TAGS: EFIN, UK
SUBJECT: CHANCELLOR HEALEY'S STATEMENT TO PARLIAMENT

1. FOLLOWING IS MAIN SUBSTANTIVE TEXT OF CHANCELLOR
HEALEY'S STATEMENT TO BE MADE AFTERNOON JANUARY 11, AS
SUPPLIED BY H.M. TREASURY.

QUOTE STERLING -- STATEMENT BY THE CHANCELLOR
WITH PERMISSION I SHALL MAKE A STATEMENT. I TOLD THE
HOUSE IN MY STATEMENT ON 15TH DECEMBER THAT THE GOVERNMENT
HAS BEEN CONCERNED TO REMOVE THE PRESSURES EXERTED ON THE
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EXCHANGE RATE BY THE OVERHANG OF THE STERLING BALANCES.
OTHER COUNTRIES SHARE OUR VIEW THAT FLUCTUATIONS IN THE
OFFICIAL STERLING BALANCES HAVE BEEN DISRUPTIVE NOT ONLY
TO BRITISH ECONOMIC POLICY BUT ALSO TO THE INTERNATIONAL
MONETARY SYSTEM. THE HOUSE WILL BE GLAD TO KNOW THAT THE
DISCUSSIONS WE HAVE HELD ON THIS SUBJECT RESULTED YESTER-
DAY IN A BROAD AGREEMENT BETWEEN CENTRAL BANK GOVER-

NORS IN BASLE ON THE SETTING UP OF A FACILITY FOR THE OFFICIAL STERLING BALANCES. A STATEMENT ANNOUNCING THIS AGREEMENT WAS ISSUED LAST NIGHT BY THE BANK FOR INTERNATIONAL SETTLEMENTS IN BASLE.

THE PURPOSE OF THE AGREEMENT IS NOT ONLY TO ACHIEVE GREATER INTERNATIONAL MONETARY STABILITY AND TO ENSURE THAT STERLING AND THE EXCHANGE MARKETS CEASE TO BE AFFECTED BY PRESSURES ASSOCIATED WITH ANY RUNDOWN OF THE OFFICIAL STERLING HOLDINGS; BUT ALSO TO ENABLE THE BRITISH GOVERNMENT TO ACHIEVE AN ORDERLY REDUCTION IN THE ROLE OF STERLING AS A RESERVE CURRENCY.

THE AGREEMENT WILL IN NO WAY REDUCE THE EXISTING FREEDOM OF NON-RESIDENT STERLING HOLDERS TO MANAGE THEIR HOLDINGS AS THEY WISH. THE GOVERNMENT, WILL, HOWEVER, BE OFFERING OFFICIAL HOLDERS THE OPTION TO CONVERT ANY PART OF THEIR HOLDINGS IN STERLING INTO NEGOTIABLE MEDIUM-TERM FOREIGN CURRENCY BONDS TO BE ISSUED BY HMG ON MARKET-RELATED TERMS.

THE NEW FACILITY, WHICH WILL BE AVAILABLE AS SOON AS ALL THE TECHNICAL DETAILS HAVE BEEN WORKED OUT, IS FOR A TOTAL AMOUNT OF \$3 BILLION. IT WILL BE OPERATED BY THE BIS, WITH THE SUPPORT OF CENTRAL BANKERS IN OTHER GROUP OF TEN COUNTRIES AND SWITZERLAND. OVER A TWO-YEAR PERIOD THE UK WILL BE ABLE TO DRAW ON THE FACILITY IN RESPECT OF ANY NET REDUCTIONS IN THE OFFICIAL STERLING HOLDINGS FROM DECEMBER LEVELS, OTHER THAN REDUCTIONS ARISING FROM CONVERSION TO THE FOREIGN CURRENCY BONDS. THERE IS ALSO PROVISION FOR AN EXTENSION OF THE DRAWDOWN PERIOD FOR A THIRD YEAR, IF ALL THE PARTICIPANTS AGREE. REPAYMENT WILL BE

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OVER A PERIOD OF 4 YEARS FROM THE END OF THE DRAWDOWN PERIOD.

THE FACILITY COVERS ONLY OFFICIAL STERLING BALANCES BECAUSE IT IS THESE THAT HAVE BEEN THE UNSTABLE ELEMENT

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O R 111627Z JAN 77
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AMEMBASSY PARIS
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AMEMBASSY TOKYO
USMISSION EC BRUSSELS
USMISSION OECD PARIS

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IN RECENT YEARS. BUT THE UK WOULD NOT WISH LARGE NEW INFLOWS INTO PRIVATE HOLDINGS TO BE A MEANS OF FINANCING THE UK BALANCE OF PAYMENTS DEFICIT ON CURRENT ACCOUNT.

AS THE STATEMENT BY THE BIS MAKES CLEAR, THIS AGREEMENT HAS BEEN POSSIBLE BECAUSE THERE HAS BEEN GENERAL APPROVAL OF OUR ECONOMIC AND FINANCIAL POLICIES AS SET OUT IN MY LETTER OF 15TH DECEMBER TO THE MANAGING DIRECTOR OF THE INTERNATIONAL MONETARY FUND. THE NEW FACILITY FOR THE OFFICIAL BALANCES ASSUMES THAT THESE POLICIES WILL BE CONTINUED. THE MANAGING DIRECTOR OF THE IMF HAS BEEN ASSOCIATED WITH THESE DISCUSSIONS AND HAS BEEN ASKED TO ASSIST IN IMPLEMENTING THE AGREEMENT.

I WILL IN DUE COURSE MAKE AVAILABLE TO THE HOUSE FURTHER INFORMATION ABOUT THE TECHNICAL ASPECTS OF THE AGREEMENT. THE TERMS OF THE FOREIGN CURRENCY BONDS TO BE UNCLASSIFIED

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OFFERED TO STERLING HOLDERS WILL ALSO BE MADE AVAILABLE AT A LATER STAGE. IN THE MEANTIME I AM SURE THE HOUSE WILL AGREE THAT THE ESTABLISHMENT OF THIS NEW FACILITY WILL MAKE A POWERFUL CONTRIBUTION TO THE STABILITY OF THE INTERNATIONAL MONETARY SYSTEM AS A WHOLE AND REDUCE THE VULNERABILITY OF THE BRITISH ECONOMY TO EXTERNAL FACTORS BEYOND ITS CONTROL. I WOULD LIKE TO EXPRESS OUR APPRECIATION TO ALL THOSE WHO HAVE MADE IT POSSIBLE. IT MAKES A GOOD START TO THE NEW YEAR. END QUOTE

ARMSTRONG

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